

**ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS**

March 30, 2021

11:32 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative Mike Prax
Representative David Eastman

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

PRESENTATION: ALASKA'S REVENUES AND EXPENDITURES

- HEARD

PRESENTATION: 10 YEAR PLAN

- HEARD

PREVIOUS COMMITTEE ACTION

No previous action to record

WITNESS REGISTER

ALEXEI PAINTER, Director
Legislative Finance Division
Legislative Affairs Agency
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation, titled "Historic Revenue and Expenditures," dated 3/30/21.

NEIL STEININGER, Director
Office of Management and Budget
Office of the Governor
Juneau, Alaska

POSITION STATEMENT: Provided a PowerPoint presentation on the Office of Management and Budget's 10-year plan, dated 3/30/21.

ACTION NARRATIVE

[11:32:09 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:32 a.m. Representatives Wool, Josephson, Schrage, Story, Prax, Eastman, and Spohnholz were present at the call to order.

CHAIR SPOHNHOLZ reviewed the three goals that the House Special Committee on Ways and Means (HW&M) was charged with: consider methods to control state spending, identify ways in which state programs may be made more efficient, and propose new measures to raise additional state revenue. She noted that the same language had been used in resolutions that created the committee in previous legislatures - most recently in 2003-2008. She said each element is critical as the legislature works towards resolving the state's structural deficit, which Alaska has faced off and on for decades. She recalled that the first fiscal gap was in the late 1980s when the price of oil dropped to approximately \$9 per barrel after the legislature repealed the income tax.

REPRESENTATIVE WOOL made a motion to grant the [House Special Committee on Ways and Means] chair the authority to draft committee bills for the consideration of the committee.

REPRESENTATIVE EASTMAN objected.

A roll call vote was taken. Representatives Wool, Josephson, Schrage, Story, and Spohnholz voted in favor of the motion. Representatives Prax and Eastman voted against it. Therefore, the motion passed by a vote of 5-2.

PRESENTATION: Alaska's Revenues and Expenditures

[11:36:48 AM](#)

CHAIR SPOHNHOLZ announced that the first order of business would be a presentation on Alaska's revenues and expenditures by Alexei Painter, Legislative Finance Division (LFD).

[11:38:00 AM](#)

ALEXEI PAINTER, Director, LFD, Legislative Affairs Agency (LAA), provided a PowerPoint presentation, titled "Historic Revenue and Expenditures" [hard copy included in the committee packet]. He began on slide 2, titled "General Notes," which read as follows [original punctuation provided]:

- Historic revenue numbers are from the Department of Revenue's "60 Years of Revenue" publication in the Fall 2018 Revenue Sources Book
- Recent revenue numbers are from the Spring 2020 Revenue Sources Book
- Historic budget numbers use current fund classifications so these numbers will not match contemporary publications
- This allows for more straightforward comparisons with the current year
- Inflation and population data are from the Department of Labor and use Anchorage CPI
- All Funds data in this presentation excludes duplicated funds
- Unrestricted General Funds (UGF) are used for most slides because that is the only fund source that impacts the size of the deficit. All Funds data indicates the size of government but may not directly correlate to the State's fiscal situation

[11:40:18 AM](#)

REPRESENTATIVE PRAX remarked:

You're saying the Unrestricted General Funds - the only fund source that impacts the size of the deficit - then the other funds are not just General Funds that have been designated for this or that ... it's funds that come in from some a source other than ... taxes.

[11:40:48 AM](#)

MR. PAINTER explained that a Designated General Fund (DGF) included a designated tax by statute; however, for deficit calculations, the expenditures and revenue from that fund are set to be equal because if revenue exceeds expenditure authority, that amount would either remain in the fund or lapse to the General Fund. Further, when authorization exceeds revenue, it is referred to as "hollow authorization." He noted that neither case would necessarily feed into the deficit.

11:42:24 AM

MR. PAINTER resumed the presentation on slide 3, which featured a graph showing UGF revenue since statehood. The green portion reflected traditional UGF revenue, the orange portion reflected Permanent Fund Dividend (PFD) transfers from the Earnings Reserve Account (ERA), and the purple showed the percent of market value (POMV) draw, which began in FY 19 and replaced the direct draw from the ERA for the dividend. The graph highlighted historic revenue spikes, including the Prudhoe Bay lease sale [first spike in revenue - unlabeled], the first production from Trans-Alaska Pipeline System (TAPS) in 1977, and peak North slope oil production in FY 89.

11:44:36 AM

REPRESENTATIVE STORY asked when the tax structure changed under the Palin Administration.

MR. PAINTER answered FY 15. He noted that the effect of the tax regime change is not depicted on the current slide because it coincided with a drastic drop in oil prices.

CHAIR SPOHNHOLZ informed the committee that 2 billion barrels of oil per day was being produced in 1989 whereas today, oil production is at 500,000 barrels per day.

11:45:30 AM

MR. PAINTER continue to the graph on slide 4, which showed the data from slide 3 adjusted for inflation and population. He indicated that the Prudhoe Bay lease sale, which was relatively small on the previous graph, brought the state nearly \$20,000 per person in real revenue after inflation adjustments. He noted that the same level was not exceeded until oil revenue peaked in the 1980s. Additionally, the graph showed that today's revenue is similar to FY 16 and FY 17, which is the lowest level since before the pipeline era.

CHAIR SPOHNHOLZ surmised that after adjusting for inflation and population, [today's] revenue is well below the historical average spending in the last 60 years. She asked if that is correct.

MR. PAINTER replied in the affirmative. He noted that without the POMV revenue, traditional revenue is at a lower level today

than in the 1990s, which was another troubling time for the state fiscally.

[11:48:30 AM](#)

REPRESENTATIVE SCHRAGE asked for a breakdown of oil revenue versus what was brought in by the state oil tax prior to 1980.

MR. PAINTER said at its repeal, the personal income tax adjusted for inflation and population would bring in today's equivalent of roughly \$600-\$700 million. He expounded that after the Prudhoe Bay lease sale, the main sources of revenue were taxes on Cook Inlet oil production and the personal income tax, as well as an education head tax and several other revenue sources. He believed that in the early period of statehood, the income tax was a main source of revenue for the state. However, he reiterated that if the income tax were adjusted forward, \$600-\$700 million wouldn't meet the current level of government at \$4.5 billion.

REPRESENTATIVE SCHRAGE questioned whether the personal income tax was primarily funding state government from 1961-1966.

MR. PAINTER confirmed that in the first few years of statehood, the income tax was the state's largest revenue source.

REPRESENTATIVE SCHRAGE sought verification that today's revenue is comparable to the income tax revenue during the first five years of statehood.

MR. PAINTER said it's roughly equivalent without the POMV draw, which is currently the state's largest source of revenue.

[11:51:07 AM](#)

MR. PAINTER proceeded to the graph on slide 5 showing ANS [Alaska North Slope] oil production and prices from FY 11 through FY 21. The red portion reflected ANS production, which declined from approximately 600,000 barrels per day in FY 11 to just below 500,000 barrels per day in FY 21; the blue line reflected ANS price, which was over \$100 per barrel from FY 12 to FY 14 and declined to \$52 per barrel in FY 20.

[11:52:24 AM](#)

MR. PAINTER advanced to the graph on slide 6 showing UGF revenue and oil prices from FY 11 through FY 21. The black line

represented the ANS price, the blue portion represented the petroleum revenue, the red portion represented the non-petroleum revenue, the purple portion showed the ERA draw for the PFD, and the green portion showed the ERA draw for the POMV. He reiterated that the ERA draw for the POMV is still the state's largest source of revenue; however, it doesn't compare to the revenue level in FY 13 and prior.

[11:54:12 AM](#)

MR. PAINTER progressed to a graph on slide 7 showing UGF spending and revenue since statehood with the bars representing state spending. He conveyed that the agency operations portion of the budget [shown in dark blue] had been relatively flat since the mid-1980s through the early 2000s due to constrained revenue. He noted that spending on agency operations increased when revenue increased. He pointed out that there were several deficits throughout the 1980s and 1990s resulting in draws from the Constitutional Budget Reserve (CBR) account, which turned in to surpluses when revenue spiked and returned to deficits when revenue declined.

[11:56:32 AM](#)

CHAIR SPOHNHOLZ questioned when the oil tax changes passed by the Palin Administration went into effect.

MR. PAINTER answered FY 07, which coincided with the spike in oil prices.

CHAIR SPOHNHOLZ concluded that there was a nexus between oil taxes and oil price, resulting in an infusion of resources that allowed Alaska to "do a lot of things," but wasn't maintainable after the price of oil dropped. She further noted that the decline in oil price coincided with the passage of Senate Bill 21.

MR. PAINTER replied in the affirmative. He explained that the Palin-era tax didn't have a minimum tax like the current oil tax system. He expounded that during the periods of much lower oil prices, the higher progressivity of the Palin-era tax wouldn't have led to higher revenue because of the lack of a floor in that tax system.

[11:57:43 AM](#)

MR. PAINTER continued to the graph on slide 8, which showed the data on slide 7 adjusted for inflation and population. He noted the prolonged period of constrained spending in per capita terms from the mid-1980s through the early 2000s. Additionally, he pointed out that today, spending has declined to roughly the same level as FY 07 before the spikes in spending from the mid-2000s.

[11:58:41 AM](#)

CHAIR SPOHNHOLZ noted that in times of lower spending, there were also services that made the quality of life much better in Alaska compared to the 1970s and 1980s. She recalled times in her childhood when streets went unplowed, rural students were sent to boarding schools, and public safety was a challenge. Further, the federal government had primacy over many elements of issues that affected Alaska's government and the way commerce functioned.

[12:00:29 PM](#)

MR. PAINTER addressed the spike on statewide items, noting that there was not an unfunded pension liability until the mid-2000s, which is now an annual expense of \$300 million. He directed attention to the graph on slide 9 showing All Funds spending and revenue since statehood. He noted that the data assumed that revenue equals expenditures for the non-UGF sources.

CHAIR SPOHNHOLZ asked what the buying power of an unadjusted dollar from 1970 would be today.

MR. PAINTER offered to follow up with the requested information.

[12:02:17 PM](#)

MR. PAINTER advanced to the graph on slide 10, which showed All Funds spending and revenue since statehood adjusted for inflation and population. He pointed out that the spike in FY 20 is primarily due to federal aid for coronavirus relief. He said the graph shows less volatility because the state's federal authorization was stable over the years. He added that many of the overall trends are the same.

[12:03:27 PM](#)

REPRESENTATIVE WOOL questioned why agency operations spiked in 1982 and decreased in 1983.

[12:03:36 PM](#)

MR. PAINTER offered to follow up with the requested information.

[12:03:44 PM](#)

MR. PAINTER progressed to the graph on slide 11 showing UGF spending and revenue from FY 11 through FY 21. He noted that FY 13 was the first year of deficit spending despite having oil prices over \$100. He pointed out that FY 21 is the ninth straight year of deficits. The total budget is significantly smaller today than it was in FY 13, much of which is the reduction in the capital budget. There is also a reduction in statewide items. He informed the committee that the retirement liability and the oil and gas tax credits are the largest spending items.

[12:05:22 PM](#)

REPRESENTATIVE JOSEPHSON sought to confirm that the state cannot "deficit spend" institutionally in the final analysis.

MR. PAINTER defined "deficit spending" as drawing from the budget reserves to meet the state budget, according to LFD. However, to understand the state's fiscal situation, he said a draw from the Statutory Budget Reserve (SBR) or a draw from the Constitutional Budget Reserve (CBR) is considered a deficit.

[12:06:26 PM](#)

REPRESENTATIVE SCHRAGE questioned whether the capital budget funds include deferred maintenance or new construction of projects.

MR. PAINTER said it includes both. He explained that an initiative in the Parnell Administration addressed deferred maintenance with \$100 million per year for five years, which brought the deferred maintenance backlog down from over \$2 billion at its peak to \$1.5 billion. He noted that the backlog is currently back up to \$2 billion because that investment wasn't continued. Additionally, he stated that capital budgets during that era included numerous direct grants to nonprofits, local governments, and schools.

[12:07:41 PM](#)

REPRESENTATIVE PRAX shared his understanding that when a private business uses the term "capital spending," it's referencing expenditures that last more than a year, whereas "capital spending" to the state refers an expenditure in the capital budget. He asked if that is correct.

MR. PAINTER stated that in many cases, LFD counts items "based on their nature;" for example, if there were a clear operating item in the capital bill, it would be counted as an operating item. He noted that many items in the capital budget are in a "gray area," such as a grant for a nonprofit's roof repair or funding for a study.

12:09:30 PM

REPRESENTATIVE SCHRAGE, referencing slide 11, asked whether most of the capital budget (in light blue) is deferred maintenance. Additionally, he asked whether the [current] level of capital budget is holding deferred maintenance steady or if deferred maintenance is growing.

MR. PAINTER restated that the deferred maintenance backlog is over \$2 billion. He said the largest share of that is at the University of Alaska, which historically used part of its general funds for deferred maintenance. He explained that as the University's of Alaska's budget has been reduced, the university reduced funding for deferred maintenance. Additionally, the way deferred maintenance is funded changed. Several years ago, a statute was passed that designated the Alaska Capital Income Fund as "for deferred maintenance," which provided a regular revenue source of \$30 million per year. However, for comparison, the state owns about \$9 billion in buildings, which in the most conservative 1 percent rule, would be about \$90 million per year. He said that amount [of deferred maintenance] has not been funded since the Parnell Administration. He conveyed that the backlog grew over the past few years because less was invested in it.

REPRESENTATIVE SCHRAGE characterized the deferred maintenance as "incredibly troubling." He also expressed concern that there are no new construction jobs to develop new projects or maintain basic upkeep on the state.

12:12:09 PM

CHAIR SPOHNHOLZ asked whether the list of accruing deferred maintenance projects includes every statewide project that needs to be completed or if the list could potentially be higher.

MR. PAINTER deferred the question to the director of the Office of Management & Budget (OMB). He stated his belief that there is currently a multi-agency effort to bring all projects forward on a unified list.

CHAIR SPOHNHOLZ emphasized the importance of prioritizing deferred maintenance projects when considering a strategy to address the state's fiscal situation. She pointed out that if it is not addressed, the cost would only grow higher; furthermore, some deferred maintenance projects could help with energy efficiency, which could save costs in the future.

[12:13:33 PM](#)

MR. PAINTER noted that the \$2 billion figure only includes state facilities, leaving out deferred maintenance at facilities that the state may have some responsibility for, such as rural schools, which are funded through separate means. Additionally, there is \$1.8 billion of deferred maintenance in water and sewer projects that is met through the Village Safe Water (VSW) program. Further, the Alaska Energy Authority (AEA) identified \$800 million in bulk fuel deferred maintenance projects that's funded through an AEA appropriation. He concluded that there are a number of other items that fall into the general category of deferred maintenance that are not necessarily state facilities, so they are not included in the \$2 billion figure.

CHAIR SPOHNHOLZ asked whether some facilities contribute to operating expense because the state is responsible for providing funding to local communities to operate the buildings.

MR. PAINTER said in some cases, yes. He explained that the water and sewer programs don't feed into the budget directly; however, there's not a local capacity for those projects, so the state and the federal government, through VSW, make that investment.

[12:16:32 PM](#)

REPRESENTATIVE JOSEPHSON recalled that DEC [Department of Environmental Conservation] opined that there could be less regulation of bulk fuel containers in the last fiscal year. He characterized that statement as "ironic" given the amount that they claim needs to be enhanced. He asked if that is correct

[that the administration's position was that they didn't need on-site inspection of some large bulk fuel containers].

MR. PAINTER confirmed [that he recalled that discussion]. He noted that the \$800 million figure is AEA's number, not DEC's.

[12:17:23 PM](#)

REPRESENTATIVE WOOL noted that some of the \$1.8 billion in water and sewer is maintenance and some is new construction. He asked whether the new construction is typically paid for by the federal government.

MR. PAINTER said both are partially paid for by the federal government with an existing state match. He explained that the annual VSW appropriation includes a portion for new construction and a portion for maintenance.

REPRESENTATIVE WOOL asked whether the state match is 50/50.

MR. PAINTER shared his belief that the match is 25 percent. He offered to verify that number and follow up with the committee.

[12:18:23 PM](#)

MR. PAINTER proceeded to the graph on slide 12 showing agency operations by fund group from FY 11 through FY 21. The blue portion reflected UGF, the red portion reflected Designated General Funds (DGF), the green portion showed other state funds, and the purple showed federal receipts. He highlighted the spike in federal receipts in FY 20 from the CARES Act funding. He noted that while UGF had decreased, All Funds remained level.

[12:19:04 PM](#)

MR. PAINTER continued to the graph on slide 13 showing UGF agency operations by department from FY 11 through FY 21. He pointed out that in agency operations, the peak year for UGF was FY 15. He noted that the governor's FY 22 budget is roughly the same as FY 18, which was the lowest.

[12:19:47 PM](#)

MR. PAINTER turned to the table on slide 15 listing UGF budget changes by agency since FY 15. He explained that the table is divided into two separate periods: FY 15-18 and FY 18-22. From FY 15-18, every agency experienced UGF reductions with an

overall reduction of \$663 million or 14.7 percent. Since FY 18, the overall reduction is 1.1 percent; however, some agencies have increased while others have decreased. He noted that the table uses final budget, which explains the increase to the legislature. He added that in terms of the actual expected spending, the legislature is closer to flat.

CHAIR SPOHNHOLZ surmised that the legislature is a restoration of previous funds spent in FY 15.

MR. PAINTER said that is correct to some degree; however, a considerable amount of the funds are projected to lapse. He reported that rather than providing capital projects, [the legislature] over-authorizes on operating and lapses into the capital budget. He conveyed that the legislature took some reductions in Legislative Legal Services and Legislative Research, but generally, the legislature's budget in actual spending had been flat during this time.

12:22:08 PM

REPRESENTATIVE JOSEPHSON sought to verify the change of 1.1 billion, which he derived by adding statewide expenses. He approximated that it drove up the percent change to 21 percent. He asked if that sounds plausible.

MR. PAINTER answered in the affirmative.

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REPRESENTATIVE STORY asked why there's not an asterisk by the legislature's spending column to note the relative flatness. Further, she asked whether any other agencies are similar in that they differ from the figures on the table.

MR. PAINTER related that there's no single point of comparison that's completely fair when doing historical comparisons, as final budget includes supplementals and things like the lapse in the legislature. He noted that the Department of Natural Resources (DNR) is misleading because its budget fluctuates based on the fire season. He explained that it looks like there had been a large reduction; however, it's actually reflecting the fire suppression funding.

CHAIR SPOHNHOLZ asked whether each figure includes the supplementals.

MR. PAINTER answered yes.

CHAIR SPOHNHOLZ pointed out that in the last three years, the legislature had essentially increased the department of Corrections' (DOC's) budget by over \$60 million, which is about the same amount that was cut from the University of Alaska. She said at a time of fiscal constraint, more money is being spent to lock people up and less money is spent on educating them. Additionally, she highlighted the \$54 million decrease in Department of Health and Social Services (DHSS) and asked why that is.

12:25:37 PM

MR. PAINTER said the bulk of that change is the Medicaid program, as the governor has a reduction of \$35 million from the FY 21 amount. Additionally, changes to behavioral health, as a waiver process through Medicaid enabled reductions in that program.

CHAIR SPOHNHOLZ pointed out that the governor's proposed Medicaid cut is based on a one-time drop in utilization that occurred last year because of the public health measures, which restricted health care delivery.

12:26:53 PM

MR. PAINTER turned to the table on slide 15 showing All Funds budget changes by agency since FY 15. He noted that All Funds for DHSS stands out due to a \$700 million increase in Medicaid in federal receipts, which is primarily an impact of Medicaid expansion. Additionally, the \$151 million increase in DOR from FY 18-22 reflects federal funding for rental relief. He summarized that All Funds for most agencies decreased; however, Medicaid expansion was such a large influx of federal funds that it made the total aggregate look like it did not go down.

CHAIR SPOHNHOLZ shared her understanding that 65,000 additional Alaskans are covered because of Medicaid expansion. She further noted that the federal government covers most of it, as the match is 90/10.

12:29:17 PM

MR. PAINTER advanced to the table on slide 16 listing filled full-time position count changes by agency since FY 15. He indicated that the trend in positions mirrors the total budget,

as nearly every agency shows a 10 percent reduction in filled positions from FY 15-18. From FY 18-22, there's a mix of agencies being up and down with a total decline of 2 percent. He said many of the increases are the public safety items that resulted from House Bill 49 and the increased investment in the criminal justice system.

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REPRESENTATIVE PRAX questioned whether comparing state spending against gross state product would accurately measure Alaska's overall economy.

[12:31:37 PM](#)

MR. PAINTER said gross state product, which is largely dependent on the oil industry, would give a "decent proxy" to the state's revenue generation ability, as [oil] is a primary revenue source. He pointed out that it wouldn't factor in the investment revenue. He suggested using personal income as a proxy for the size of Alaska's economy because it would exclude the swings of the oil industry; however, it wouldn't relate to the ability to finance government. He offered to prepare a slide with the requested information.

[12:32:42 PM](#)

REPRESENTATIVE JOSEPHSON asked, "Would this 44 number in the change in the last three fiscal years - would that represent that they're down 56 from the beginning of the spreadsheet?"

MR. PAINTER answered yes.

[12:33:08 PM](#)

REPRESENTATIVE STORY questioned whether the position cuts are distributed equally across the state.

MR. PAINTER offered to follow up with the requested information, per OMB.

PRESENTATION: 10 Year Plan

[12:33:53 PM](#)

CHAIR SPOHNHOLZ announced that the final order of business would be a presentation by Neil Steininger, Office of Management & Budget.

12:34:35 PM

NEIL STEININGER, Director, Office of Management and Budget, Office of the Governor, provided a PowerPoint presentation [hard copy included in the committee packet] by the Office of Management and Budget (OMB) on a 10-year plan. He detailed a graph on slide 2 showing historical state savings balances. He explained that in some of the high-revenue years, the legislature made an effort to put money away into both state savings accounts, the CBR and the SBR [in dark blue]. He highlighted the peak savings balance of over \$16 billion in FY 13, which combined with prior efforts to save, allowed the state to weather the last decade of budget deficits from a revenue to expenditure perspective. He indicated that very little money is left in the traditional reserve accounts to accommodate continued budget deficits. He explained that while there's not a "magic" number that the state needs in its savings balances, \$500 million is the amount that may be needed on a day-to-day basis to cover financial outlays in advance of revenue collections from federal programs. He informed the committee that money is expended in advance of collection from the federal government; therefore, at any given time, the state may be \$500 million ahead of those collections and requires cash on hand to manage it. He said that while developing the budget and the 10-year plan this year, OMB recognized that the savings balances could not be relied upon.

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CHAIR SPOHNHOLZ noted that the CBR and SBR were built up when the price of oil was high. She shared her understanding that [the legislature] is obligated to repay the CBR for money that is spent from it.

MR. STEININGER replied in the affirmative. He said any money drawn from the CBR to meet a budget deficit is due to be repaid to the CBR per the constitution.

CHAIR SPOHNHOLZ reiterated that in FY 13, combined CBR and SBR savings peaked at about \$16 billion, which is close to the same amount of money in the ERA of the Alaska Permanent Fund. She opined that the inability to resolve the state's fiscal

situation could result in depleting the ERA, as it only requires a majority vote in each body.

[12:39:52 PM](#)

REPRESENTATIVE WOOL highlighted the uptick in savings in FY 22 and asked how much of that is from settlements with oil companies for past audits over the last seven years. Additionally, he inquired about the money from tax audits and lawsuit settlements that was put in the CBR, which contributed to the growing balance in early years.

MR. STEININGER confirmed that revenues diverted to the CBR were a result of claims settlements, which primarily contributed to the balance in the CBR. Regarding the uptick in FY 22, he said, that is primarily the adjustment in revenue from the spring revenue forecast.

[12:41:52 PM](#)

REPRESENTATIVE SCHRAGE observed that the state had been "weathering the storm" for quite some time. He questioned whether the state is "hunkered down, weathering the storm, hoping that things will get better" or is something being done internally to change the trajectory. He expressed concern that the [current fiscal situation] isn't temporary.

MR. STEININGER acknowledged that it's become the new normal. He emphasized the need for significant structural changes to the way the state approaches state finances to change the trajectory and meet existing obligations. He said there are many different financial levers and changes that could be made to adjust the state's financial structure. He referenced several constitutional amendment proposals that address some of these issues, one of which would change the relationship between the permanent fund and state finances by enshrining the POMV draw in the constitution.

[12:45:37 PM](#)

REPRESENTATIVE PRAX asked if "savings" referred only to the CBR balance.

MR. STEININGER clarified that state savings is both the CBR and the SBR; however, the SBR is empty.

REPRESENTATIVE PRAX sought to clarify whether the "considerable" amount of money in the ERA and other designated funds could conceptually be considered savings.

MR. STEININGER replied in the affirmative. He explained the ERA is available with a simple majority. He said there are other designated general funds, but most of them have programs reliant on either the earnings of that fund or some other mechanism to spend money from the fund. He acknowledged that those could be considered as state reserves in terms of money available for appropriation. He clarified that in the "budget world," the CBR and SBR are primarily acknowledged as state savings that are generally available for appropriation.

[12:47:45 PM](#)

REPRESENTATIVE PRAX inquired about the "prohibition" of dedicated funds.

[12:48:40 PM](#)

REPRESENTATIVE STORY asked where the money from past oil company audits is distributed into the budget.

MR. STEININGER offered to follow up with the requested information.

[12:49:22 PM](#)

REPRESENTATIVE JOSEPHSON in response to Representative Prax, opined that the difference is ultimately a lawsuit. He explained that if [the legislature] spent in violation of a dedicated provision from the territorial days, a successful lawsuit would be provoked.

[12:49:47 PM](#)

MR. STEININGER reviewed that there are truly dedicated funds that existed prior to the clause in the constitution barring dedicated funds, such as the school fund. He clarified that designated - versus dedicated - funds are up to the discretion of the legislature to appropriate in any given year.

CHAIR SPOHNHOLZ added that many of those designated funds resulted from carefully crafted compromises over many years. She pointed out that the administration views them as sweepable funds that can be used for other purposes, whereas many in the

legislature would like to see a change in statute before implementing such a change.

[12:51:14 PM](#)

MR. STEININGER advanced to the table on slide 3 showing a fiscal summary of [FY 21 and] FY 22. He highlighted the difference in revenues, noting the slight increase in unrestricted revenue to approximately \$1.7 billion in FY 22. He further noted that in FY 22, [OMB] is proposing that the entire POMV draw be used for government services. He added that the deficit or surplus in FY 22, as indicated on the slide, is before the payment of the PFD. Additionally, in FY 21, the \$1.1 billion in carryforward and adjustments reflects CARES Act money that was extended from the FY 20 budget. He explained that the \$50 million decrease in capital appropriations from restricted general funds in FY 22 is a "misnomer" because the full capital budget wasn't fully appropriated in FY 21 due to the pandemic. In FY 22, OMB is proposing to use bonding through the Alaska Housing Finance Corporation to cover the traditional capital budget, as indicated by the deflated UGF amount for capital spending.

CHAIR SPOHNHOLZ asked how many other states use bonding for their capital budgets.

[12:54:29 PM](#)

MR. STEININGER shared his understanding that some states are on a three-year cycle of using bonding for the majority of their capital spending. He said Alaska had enough unrestricted general fund to cover most of its capital needs in prior years. Additionally, the state has a generous match in its highway program. He explained that the interest rates are low, so there is an advantage to using bonding from a financial perspective, which is why the administration put forward two different bonding proposals.

CHAIR SPOHNHOLZ asked whether bonding was used for capital projects in 2012.

MR. STEININGER confirmed.

[12:55:35 PM](#)

MR. STEININGER detailed the state savings accounts on slide 4. He highlighted the \$1.5 billion in the CBR in FY 21, noting that OMB is projecting a \$550 million draw from the CBR leaving an

end balance of \$897 million going into FY 22. He pointed to the lower chart, titled "Permanent Fund Earnings Reserve," which showed a POMV draw for government, POMV draw for the Permanent Fund Dividend (PFD), and a statutory PFD draw in both FY 21 and FY 22.

CHAIR SPOHNHOLZ noted that the POMV, as referenced in an earlier slide, is about \$3 billion. She sought verification that the administration is proposing to draw the \$3 billion in addition to \$1.2 billion from the Alaska Permanent Fund to pay a statutory PFD [in FY 21].

MR. STEININGER replied in the affirmative. He acknowledged that completing the statutory calculation of the PFD would require another \$1.2 billion.

CHAIR SPOHNHOLZ asked whether overdrawing the permanent fund this year would impact the fund's balance and earning potential in the future.

MR. STEININGER replied any amount of money spent out of the earnings reserve would reduce the balance and impact future earnings. He added that drawing \$1.2 billion would change the POMV calculation in the future.

CHAIR SPOHNHOLZ pointed out that the ERA is invested in the same way as the corpus. She explained that overdrawing the ERA essentially reduces the amount of earnings that the permanent fund produces for the state in perpetuity; therefore, the \$1.2 billion overdraw would result in losing additional revenue every year in the future and, potentially, increase the amount of revenue needed to fill the fiscal gap in perpetuity.

[12:59:02 PM](#)

REPRESENTATIVE JOSEPHSON sought to clarify whether the administration considers the ERA a state savings account.

MR. STEININGER answered no, the administration does not consider the ERA an account that should be used for general government expenses; however, in the state's current economic situation, the money to pay the PFD outweighs the consideration of the impact on the POMV going forward. He opined that paying a PFD is more important, especially in the current economic climate. He reiterated that the administration does not view it as a savings account, but it had to be drawn from to meet the statutory obligation.

1:01:30 PM

REPRESENTATIVE WOOL asked whether the constitutional amendment that proposes constitutionalizing the POMV draw of 5 percent is tied to a PFD formula.

MR. STEININGER said that constitutional amendment was proposed alongside a statutory change to the PFD formula. He explained that the POMV and dividend calculations in Senate Bill 26 are "on different date ranges" for the five-year averages; therefore, enshrining the POMV draw into the constitution would necessitate addressing those statutory issues with the PFD. Additionally, the constitutional amendment would constitutionalize the payment of a dividend.

1:04:02 PM

CHAIR SPOHNHOLZ pointed out that if the legislature were to overspend the POMV by \$1.2 billion, as proposed by the administration, the Alaska Permanent Fund projects earnings of 6.5 percent over the long-term. She emphasized that overspending on a one-time basis would result in losing approximately \$80 million in revenue to the permanent fund every year in perpetuity. Additionally, the five percent draw would result in a lower amount available to the government, which would potentially necessitate increased taxes to meet that gap. She opined that overspending the permanent fund is essentially raising taxes on future Alaskans forever.

1:05:27 PM

MR. STEININGER proceeded to slide 5, which showed a snapshot of the state's operating budget over the past 10 years. The tables [top right] indicate the changes from FY 19 through the proposal for FY 22. He emphasized the significant reduction in UGF and noted the .7 percent reduction in the number of full-time budgeted positions. Further, he highlighted the following in the development of the FY 22 operating budget: organizational changes for service delivery; utilization of COVID relief; process changes from telework resulting in savings; continued constraint on operational costs.

1:07:22 PM

CHAIR SPOHNHOLZ asked whether the FY 22 figures exclude federal COVID-19 relief funds.

MR. STEININGER explained that the federal COVID-19 relief funds show up in the FY 20 column, which is the year they were added into the budget. He noted that some of the federal relief funds flow into FY 21 as carryforward transactions. He also pointed out that the FY 22 column does not reflect the American Rescue Plan (ARP) dollars.

CHAIR SPOHNHOLZ conveyed that the federal ARP numbers would be at least \$1.1 billion and flexible. She anticipated that the federal relief funds would mask the structural deficit moving forward for the next several years.

[1:08:32 PM](#)

REPRESENTATIVE EASTMAN recalled hearing conversations regarding the amount of funds in the CBR. He said different people posited different numbers and questioned the accuracy of historical reportings. He asked how the data on slide 4 resolves that conversation.

MR. STEININGER confirmed that there had been discussions on the CBR balance calculation and the source of the information for that calculation. He reported that over the summer, OMB worked with LFD, Division of Finance, and Legislative Audit Division to ensure that the numbers and calculations used to estimate the CBR balances were aligned and robust. He said the figures on slide 4 reflect that effort.

[1:10:11 PM](#)

REPRESENTATIVE EASTMAN asked whether there is a consensus or a difference of opinion [on the CBR balance].

MR. STEININGER replied there is a consensus.

[1:10:42 PM](#)

MR. STEININGER continued to slide 6, titled "Budget Cost Drivers," which read as follows [original punctuation provided]:

From FY2019 to FY2022...

- State assistance to retirement has increased \$70.3 million
- Employee salary adjustments for cost of living and health insurance have increased \$50.0 million

- Public protection services including law enforcement, prosecution, defense, courts, and corrections have required investment of \$52.8 million

\$173.1 million in UGF reductions to maintain a flat budget

MR. STEININGER added that the \$330 million reduction in UGF spending [slide 5] is after accommodating \$173 million in upward cost pressure.

[1:12:24 PM](#)

REPRESENTATIVE EASTMAN sought to clarify whether the third bullet on slide 6 is referring to an increase to the base budget or a capital investment.

MR. STEININGER explained that the third bullet reflects increases in the base budget for public protection agencies, such as the Department of Public Safety (DPS), DOC, and the Department of Law (DOL). He noted that the court system had also seen increases during this time period.

REPRESENTATIVE EASTMAN sought clarification on the first bullet's reference to state assistance to retirement.

MR. STEININGER said the state assistance to retirement is the difference between the 22 percent of payroll charge that both the state of Alaska and municipal PERS employers pay into the retirement system and the total actuarial cost, which is 30.11 percent of payroll. He stated that the 8.11 percent difference between contributions made by employers and the total actuarial cost is born by the state in a UGF expenditure. He added that the \$70.3 million figure in the first bullet reflects the increase in that cost over this time period.

[1:13:56 PM](#)

CHAIR SPOHNHOLZ asked if that is in part, due to a miscalculation of the retirement formula from previous years that must be rectified.

MR. STEININGER said he would not characterize it as a miscalculation because the actuaries perform this determination on an annual basis.

CHAIR SPOHNHOLZ offered her understanding that there was a previous miscalculation that resulted in less money being put toward retirement, which resulted in a "fairly significant" liability on the balance sheet.

MR. STEININGER said that is not the genesis of the \$70.3 million.

[1:15:13 PM](#)

REPRESENTATIVE WOOL pointed out that the third bullet is a budgetary choice rather than mandated by law or by contract, which is different than the first two bullets. He asked if that is correct.

MR. STEININGER acknowledged that there is a distinction, as the third bullet point reflects a policy decision to focus on rebuilding investments in public protection versus a formula that is set in statute.

[1:16:42 PM](#)

REPRESENTATIVE JOSEPHSON returned to slide 5 and asked whether the UGF reduction is mostly from school bond debt reimbursement. He expressed interest in hearing OMB's assessment of what constitutes the \$389 million delta since the administration came into power.

MR. STEININGER said yes, a large portion of the reduction is school bond debt reimbursement, as well as other statewide items not necessarily just personnel. He offered to follow up with a report on "which agencies and how much over this time period."

[1:18:00 PM](#)

MR. STEININGER moved to a "swoop graph" on slide 7 depicting FY 22 UGF budgets by department. He indicated that the statutory PFD would be the largest single expenditure followed by the Department of Education and Early Development (DEED) - specifically the K-12 formula program - and the Department of Health and Social Services (DHSS) - specifically the Medicaid program- which make up the lions share of the state budget. He noted that Department of Commerce, Community & Economic Development (DCCED) has the smallest UGF budget.

[1:18:47 PM](#)

REPRESENTATIVE PRAX asked how much of the Medicaid program is "controllable" rather than mandated by federal policy.

MR. STEININGER said that is one of the more difficult programs for the state to exert unilateral control over. He expounded that there are many federal rules associated with the Medicaid program that restrict changes to eligibility or services offered. He stated that much of the UGF budget within DHSS for Medicaid must be spent per the direction of the federal government.

CHAIR SPOHNHOLZ noted that the committee would perform a deep dive on Medicaid and Medicaid reform at a later hearing.

[1:19:58 PM](#)

MR. STEININGER proceeded to slide 8, titled "Operating Budget Cost Drivers" which read as follows [original punctuation provided]:

- Medicaid \$610.0 Million UGF (14.2% of Operating Budget)
- \$43.7 million UGF (7.7%) increase in last 10 years
- K-12 Support \$1,246.7 Million UGF (29.0% of Operating Budget)
- \$72.2 million UGF (6.1%) increase in last 10 years
- Retirement Assistance \$342.0 Million UGF (8.0% of Operating Budget)
- \$207.9 million UGF (155.1%) increase in last 5 years
- Payroll 17,149 PCNs \$812.4 Million UGF (18.9% of Operating Budget)
- \$0.9 million UGF (0.1%) increase in last 10 years
- 1,319 position reduction (7.1%) in last 10 years

CHAIR SPOHNHOLZ questioned what the number would be if the retirement assistance were looked at over the last 10 years.

MR. STEININGER offered to follow up with the requested information.

[1:21:40 PM](#)

MR. STEININGER advanced to slide 9, which provided a 10-year outlook from December 2020. He highlighted the traditional

revenue that was projected for FY 22 of \$1.2 billion, which was expected to steadily increase through the end of the time period. He noted that the significant reduction in the POMV draw in FY 23 reflects the change to the dividend calculation from the historical calculation to one based on 50 percent of the POMV draw. The table also shows a return to a more "normal" capital budget in FY 23 and onward. He emphasized the figures labeled "other revenue sources," which reflects the state deficit after accounting for other changes in the 10-year plan.

CHAIR SPOHNHOLZ inquired about the debt service payments associated with the capital bonding.

MR. STEININGER said those would be incorporated under statewide items.

[1:24:40 PM](#)

REPRESENTATIVE SCHRAGE asked whether the capital budget of \$130 million [FY 24] would address the deferred maintenance.

MR. STEININGER explained that over the past several years, deferred maintenance has been addressed by utilizing money in the Alaska Capital Income Fund, which is sourced from the Amerada Hess settlement [State v. Amerada Hess] portion of the Alaska Permanent Fund and supplies \$20-30 million per year to address deferred maintenance. He acknowledged that additional work is required to find a way, within a constrained revenue situation, to address the much-needed maintenance at state facilities.

[1:26:36 PM](#)

REPRESENTATIVE SCHRAGE asked if there are many completed capital projects for which there are funds to reappropriate or move around. Additionally, he asked what level of capital budget funding would be required to start chipping away at the backlog of deferred maintenance.

[1:27:10 PM](#)

MR. STEININGER said the ideal capital budget is a difficult question to answer. He emphasized that slide 9 reflects the amount necessary for basic federal matching on larger programs, such as state highways or VSW. He indicated that they don't necessarily address deferred maintenance backlogs in state facilities; however, they do address other needs throughout the

state in addition to utilizing available UGF funds to maximize the statewide benefit of federal funds.

REPRESENTATIVE SCHRAGE clarified his first question, asking if there are any capital projects that came in under budget from which there might be funds left over.

[1:28:15 PM](#)

MR. STEININGER explained that in prior years, there was more available in reappropriations from years of large capital budgets. As those projects completed, the availability of reappropriations has decreased; however, "a couple million dollars" can be found every year from money left over from projects that have been completed in the past year.

CHAIR SPOHNHOLZ said she is familiar with the 90/10 match of the federal highway fund. She inquired about the match requirement for the village safe water program.

MR. STEININGER stated his belief that it's 25/75. He said he would follow up with confirmation.

[1:29:37 PM](#)

REPRESENTATIVE EASTMAN asked to what extent the PFD amounts, as shown on the bottom line of slide 9, differ from the historic [dividend] calculation in statute.

MR. STEININGER explained that moving from a historic calculation to a 50/50 POMV wouldn't necessarily always be higher or lower. In looking at the historical calculation, he said, it's highly volatile. Alternatively, the 50/50 POMV calculation is inherently stable, as it is 5 percent of the five-year average. He shared his understanding that the average PFD is slightly over \$1,000, so the figures [on slide 9] would represent a higher PFD than average.

REPRESENTATIVE EASTMAN sought to clarify how the PFD appropriations on slide 9 differ from the historic calculation.

CHAIR SPOHNHOLZ offered her understanding that the PFD amounts in question are based on the new formula proposed by the governor.

MR. STEININGER replied in the affirmative. He said the numbers on the bottom row, in addition to the entire chart, are based on the governors proposed changes.

CHAIR SPOHNHOLZ further clarified that on average, the historic PFD has been closer to \$1,600.

[1:31:48 PM](#)

MR. STEININGER resumed the presentation on slide 10, titled "Material changes in budget picture since December," which read as follows [original punctuation provided]:

Department of Revenue Spring update increases UGF revenue forecast by \$332 million in FY2021 and \$460 million in FY2022

Just over \$1 billion new federal funding to state

- Additional program-specific funding
- Working through details and waiting for specific guidance

Despite these bright spots, structural fiscal deficit persists

MR. STEININGER noted that the federal funding coming into the state does not completely solve the problem, but it provides an opportunity to work through the solutions necessary to solve the existing fiscal problems.

[1:32:48 PM](#)

MR. STEININGER advanced to slide 11 and noted that it's similar to slide 9 but reflects the new revenue estimates. He highlighted that the "other revenue sources" figures are much less than the prior slide, indicating that the revised revenue estimates put the state in a better place compared to December. He reiterated that they don't solve the entire problem, adding that there's still more to be solved, including changes to the PFD statute, increases in revenue, and continued constraint on the operating budget.

CHAIR SPOHNHOLZ observed that a larger impact on the budget is the increased revenue forecast. She pointed out that in FY 23, there would still be a deficit of nearly \$800 million based on the governor's proposed 50/50 split.

MR. STEININGER confirmed that a significant fiscal gap would remain. He conveyed that there are "several different areas of outlays and inflows of money that have to be addressed in order to solve this problem." He continued to state that there are significant policy issues related to [the areas of concern] - none of which could be solved unilaterally or in a budget document.

[1:35:04 PM](#)

CHAIR SPOHNHOLZ agreed. She asked whether the administration planned to introduce specific revenue measures for the next fiscal year.

MR. STEININGER declined to speculate on what could be introduced next year. Right now, he said, the focus is on protecting the ERA with a constitutional amendment and making "necessary" changes to the PFD calculation so that other policy discussions can be addressed.

[1:35:42 PM](#)

REPRESENTATIVE SCHRAGE opined that resolving the dividend prior to anything else "seems odd." He suggested addressing the deficit ["other revenue sources" on slide 11] by introducing a broad-based tax or continuing to deficit spend. [Tackling that first], he said, would allow the legislature to better address the capital budget and identify a proper level of spending. He reiterated his belief that the state needs a broader, more comprehensive plan that seriously addresses the existing structural issues.

[1:36:37 PM](#)

CHAIR SPOHNHOLZ thanked both presenters and provided additional closing remarks.

[1:37:02 PM](#)

ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 1:37 p.m.